



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAC 730.4.A.01/2006-05

October 17, 2006
06-PAC-038(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Performing Cost Accounting Standards (CAS) 410 Compliance Audits at Contractor Offsite Locations

SUMMARY

This MRD provides audit guidance for performing CAS 410 compliance audits at contractor off-site locations to determine whether the offsite location is a segment for CAS 410 purposes. Enclosure 1 provides an audit program tailored specifically for testing contractor CAS 410 compliance at these off-site locations. Enclosures 2 and 3 provide proforma reports for reporting contractor compliance (or noncompliance) with CAS 410 based on the audit performed. The effort to perform these reviews began under ESC Action Item E05-6-17. The ESC has established December 31, 2006 as the due date for completion of these reports.

GUIDANCE

The FAO cognizant of a segment should request an assist audit for each of the segment's offsite locations having incurred costs exceeding \$10 million in the last completed contractor fiscal year on CAS-covered contracts and subcontracts. The purpose of the audit is to determine whether the offsite location should be considered a segment, as defined in 48 CFR 9904.410-30(a)(7) and, if so, whether the contractor's failure to identify the offsite location as a segment may result in a material misallocation of costs to cost objectives. For purposes of these audits, an offsite location is defined as a separate geographic location that is not considered by the contractor to be a segment for CAS purposes, but that is part of another CAS segment. A CAS 410 audit program to be used by the offsite location auditors in completing the assist audit is provided as Enclosure 1 and will soon be available in APPS as a drop-down menu from the CAS 410 audit program. FAOs cognizant of offsite locations should issue assist audit reports to the segment auditor using the proforma report shells (compliance and noncompliance) attached as Enclosures 2 and 3, respectively. Upon receipt of all assist audit reports, the FAO cognizant of the segment will consolidate the findings, coordinate with the CAC/CHOA, and issue an overall CAS 410 compliance/noncompliance report to the CFAO responsible for CAS administration.

Testing for the proper identification of CAS segments should be routinely included in all CAS 410 audits. While, under this effort, audits are not required for offsite locations below the \$10 million threshold, they may be performed at the FAO's discretion when supported by a risk assessment. If a CAS 410 audit satisfying the objectives of this audit program has already been completed and reported according to this guidance, no further audit effort is required.

PAC 730.4.A.01/2006-05

October 17, 2006

SUBJECT: Audit Guidance on Performing Cost Accounting Standards (CAS) 410 Compliance
Audits at Contractor Offsite Locations

By December 31, 2006, each region will prepare an MFR to Headquarters, Attention PAC, summarizing the results of the CAS 410 compliance (and noncompliance) assist audits and audits reports issued to CFAOs. If, as a result of performing these audits, you have any comments or suggestions for improving the audit program and proforma report shells, please include them in the MFR to Headquarters.

Regional personnel should direct any questions regarding this memorandum to Accounting and Cost Principles Division, at (703) 767-3250.

/Signed/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosures: 3

1. 19410 Audit Program for Offsite Locations
2. 19410 Report for Offsite Locations
3. 19200 Report for Offsite Locations

DISTRIBUTION: C

Master Document – Audit Program

Activity Code 19410		Compliance Audit CAS 410 Offsite Locations
Version 1.0, dated October 2006		
B-1	Planning Considerations	
Purpose and Scope		
<p>1. The purpose of this assist audit of CAS 410 compliance is to determine whether a specific contractor offsite location meets the criteria to be considered a CAS segment as defined by 48 CFR 9904.410-30(a)(7). For purposes of the audit, an offsite location is defined as a separate geographic location that is not considered by the contractor to be a segment for CAS purposes, but that is part of another CAS segment.</p>		
<p>2. The audit steps in the program should reflect a documented understanding between the auditor, the technical specialist and the supervisor as to the scope required to comply in an efficient and effective manner with generally accepted government auditing standards and DCAA objectives. The program steps are intended as general guidance and should be tailored as determined by audit risk.</p>		

B-1	Preliminary Steps	W/P Reference
Version 1.0, dated October 2006		
1. Research and Planning		
a. Read and become familiar with the criteria for a business segment described in CAS 410 and MRD 06-PAC-006(NR), dated February 22, 2006.		
b. Examine the FAO permanent file data and prior relevant audit work packages to determine what data are available and any impact on this audit. Document results.		
c. If appropriate, coordinate with the FAO technical specialist, and/or regional specialist on matters of interpretation and policy.		
2. Entrance Conference and Preparation		
Arrange and conduct an entrance conference with particular emphasis on:		
a. The contractor's organizational structure.		

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b. Any new developments with G&A implications, e.g., joint ventures, teaming arrangements, partnerships, etc. (See CAM 7-1800).	
3. Risk Assessment	
a. Examine the ICQ or relevant ICAPS (whichever is applicable) of the segment to which the offsite location reports to obtain an understanding of the contractor's overall control environment adequacy as it pertains to the offsite location. Identify and determine the impact on the scope of this audit of any reported internal control system deficiencies. Document results.	
b. In planning and performing the examination, consider the fraud risk indicators specific to the audit. The principal sources for the applicable fraud indicators are: <ul style="list-style-type: none"> Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and CAM Figure 4-7-3 	

C-1	Evaluation of the Contractor's Organization and Operations	W/P Reference
Version 1.0, dated October 2006		
1.	Obtain current organization charts, descriptions of operations, department descriptions, and other data describing the functions, activities and responsibilities of the offsite location.	
2.	<p>Using the data gathered in Step 1 and the responses to the following steps, determine if the contractor has correctly determined that the offsite location is not a segment as defined in CAS 410.30(a)(7). Determine whether the offsite location possesses sufficient attributes of a segment, as identified in 06-PAC-006(NR), to be considered a segment for CAS 410 purposes (e.g., meets 3 of 5 key attributes or 5 of 9 total attributes).</p> <p><i>For some attributes, we are suggesting potential sources available to the FAO. These sources are not intended to be all inclusive or required.</i></p>	
a.	Evaluate the applicability of the following key attributes to this offsite location	

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(1) Determine if this location is responsible for submitting a Disclosure Statement.	
(2) Determine if this location has profit or loss responsibility. <i>[Examples of sources for this information include external financial statements, internal financial statements and management reports, executive performance/bonus plans, etc.]</i>	
(3) Determine if this location has responsibility for a G&A pool. <i>[Examples of sources for this information include D/S, (particularly continuation sheets for Part IV), forward pricing proposals, incurred cost submissions, and adjusting journal entries transferring offsite location G&A expenses to other entities.]</i>	
(4) Determine whether management personnel at this location are responsible for the overall management and operation of the location. <i>[Examples of sources for this information include the accumulation of line management personnel salaries at the location or cost allocations of line management salaries from another segment or home office based on specific identification of work performed at this location.]</i>	
(5) Determine whether this location reports to a home office, intermediate home office or other segment. <i>[Examples of sources for this information include organization charts, adjusting entries allocating costs from other entities or locations, and subsequent allocation of those costs to final cost objectives at this location.]</i>	
b. Evaluate the applicability of the remaining attributes to each offsite location:	
(1) Determine whether this location submits and certifies any incurred cost submission.	
(2) Determine whether this location allocates G&A expenses to other contractor business units or locations.	
(3) Determine whether this location is fully or partially responsible for pricing contracts and submitting price proposals in response to RFPs. <i>[Examples of sources for this information include forward pricing rate or pricing proposals and B&P project records.]</i>	
(4) Determine whether this location is identified as the cognizant contractor organization in any contract documents.	

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3. Document any additional information that should be considered in determining whether this offsite location should be classified as a segment for CAS purposes.	
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D-1	Review of ROM	W/P Reference
Version 1.0, dated October 2006		
1.	If the location should be considered a segment, prepare a rough order magnitude (ROM) analysis to determine whether the contractor's failure to identify the location as a CAS segment has resulted or may result in a significant misallocation of costs to final cost objectives of this location or other locations.	
a.	Examine the ICQ or relevant ICAPS (whichever is applicable), to obtain information regarding the contractors internal control systems, identify any known outstanding system deficiencies, and assess its impact in calculating the ROM. Document results.	
b.	Tailor the method used to prepare a ROM to meet individual location circumstances. The ROM should include any offsetting effects at other business units or locations. Document the method used to prepare the ROM, and the conclusion as to whether there is potentially a material misallocation of costs as a result of the contractor's practices. <i>[For example: Determine the impact on contracts if G&A was to be accumulated at this location and allocated to cost objectives. Compare this result to the G&A allocations currently made to the same cost objectives. Consideration must also be given to the impact on cost objectives of other locations/business units affected by this reallocation.]</i>	

A-1	Concluding Steps	W/P Reference
Version 1.0, dated October 2006		
1.	Summarize the results of audit.	
2.	Discuss the audit results with the technical specialist, supervisor and FAO Manager.	
3.	Coordinate audit results with the FAO that requested this assist audit and with the CAC, CHOA, or GAC network (see CAM 8-302.4 and 8-302.6).	
4.	Prepare a draft assist audit report which clearly identifies the scope of audit (i.e. whether or not the offsite location is a segment.)	
a.	If it is determined that the offsite location should not be considered	

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a segment, prepare a draft audit.	
b. If it is determined that the offsite location should be considered a segment, open an assignment under activity code 19200 and close this 19410 compliance assignment with an MFR.	
5. If an internal control system deficiency is detected during the course of this audit, draft a flash internal control report and submit it to the contractor for comment in accordance with CAM 10-413.	
6. Conduct an exit conference with the contractor to confirm factual information used in the audit.	
7. Finalize the assist audit report. <i>The FAO cognizant of the segment will consolidate all of the offsite reports and provide a single draft report to the contractor for comment.</i>	

Version No. 1.0	Compliance with Cost Accounting Standard 410 Audit Report – Offsite Locations (19410)	October 2006
Reviewer's Approval and Date:		



DEFENSE CONTRACT AUDIT AGENCY

**AUDIT REPORT NO. [Office Organizational
Code]– [Government Fiscal Year (4
digit)][Team Code][Five-Digit Activity
Code][Last 3 digits of Assignment Number]**



[Date]

PREPARED FOR: [FAO Cognizant of Segment to Which Offsite Location Reports]
ATTN: [Attention To]
[Customer Address 1st Line]
[Customer Address 2nd Line]
[City of Customer], [State of Customer] [Zip Code of Customer]
[Country of Customer]

PREPARED BY: DCAA [Office Name]
[Office Address 1st Line]
[Office Address 2nd Line]
[City of Office], [State of Office] [Zip Code of Office]
Telephone No. [Main Phone Number of Office]
FAX No. [Fax Number of Office]
E-mail Address [E-Mail of Office]

SUBJECT: Assist Audit on CAS 410 Compliance of Offsite Location

REFERENCES: *If applicable, include appropriate references.
Relevant Dates: (See Page **Error! Bookmark not defined.**)*

CONTRACTOR: [Contractor Offsite Location Name]
[Contractor Name 1st Line]
[Contractor Name 2nd Line]
[Contractor Address 1st Line]
[Contractor Address 2nd Line]
[City of Contractor], [State of Contractor] [Zip Code of Contractor]
[Country of Contractor]

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SUBJECT OF AUDIT

As requested by your office on *[insert date]*, we examined *[Contractor Name 1st Line]*'s *[Contractor Offsite Location Name]* (*[Contractor Location Acronym]*) location to determine whether this offsite location meets the definition of a segment as contained in 48 CFR 9904.410-30(a)(7). The contractor is responsible for compliance with the requirements of CAS 410. Our responsibility is to express an opinion on compliance with those requirements based on our examination.

SCOPE OF AUDIT

Except for the qualifications discussed below *[include only if the report is rendering a qualified opinion and there is a "Qualifications" section within the "Scope" paragraph]*, we conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance that the contractor's accounting practices comply with the requirements referred to above. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the cost accounting practices; and
- assessing the actual cost accounting practices and compliance of those practices with disclosed cost accounting practices and applicable requirements.

We evaluated the contractor's classification of this offsite location using the applicable requirements contained in the CAS Board rules, regulations and standards.

[Summarize the contractor's internal control systems for the audit area being examined, using the guidelines provided in CAM 10-210.3(f).] The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on *[Contractor name]*'s compliance with the specified requirements.

QUALIFICATIONS

[Separately identify and describe any special circumstances or conditions affecting the audit or its results.]

RESULTS OF AUDIT

In our opinion *[except for the (describe the qualification and the potential impact on the results)]*, *[Contractor Location Acronym]* currently does not meet the definition of a segment as contained in 48 CFR 9904.410-30(a)(7).

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Audit Report No. -

We discussed factual matters concerning our findings with [*name and title of contractors's representative*] in an exit conference held on [*date*].

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Audit Report No. -

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization.

[See CAM 10-210.7.]

2. Systems.

[See CAM 10-210.7.]

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DCAA PERSONNEL

	<u>Telephone No.</u>
Primary contact(s) regarding this audit:	
[Auditor's Name], Auditor	[Auditor's Phone Number]
[Supervisor's Name], Supervisory Auditor	[Supervisor's Phone Number]
Other contact(s) regarding this audit report:	
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[Office Name]	[E-Mail of Office]

General information on audit matters is available at <http://www.dcaa.mil/>.

AUDIT REPORT AUTHORIZED BY:

[FAO Manager's Name]
[Title]
DCAA [Office Name]

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[FAO Address 2nd Line]	
[FAO City, State and Zip Code]	

RESTRICTIONS

1. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act requests for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

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Version No. 1.0	Noncompliance with Cost Accounting Standard 4XX Audit Report – Offsite Locations (19200)	October 2006
Reviewer's Approval and Date:		



DEFENSE CONTRACT AUDIT AGENCY

**AUDIT REPORT NO. [Office Organizational
Code]– [Government Fiscal Year (4
digit)][Team Code][Five-Digit Activity
Code][Last 3 digits of Assignment Number]**



[Date]

PREPARED FOR: [FAO Cognizant of Segment to Which Offsite Location Reports]
 ATTN: [Attention To]
 [Customer Address 1st Line]
 [Customer Address 2nd Line]
 [City of Customer], [State of Customer] [Zip Code of Customer]

PREPARED BY: DCAA [Office Name]
 [Office Address 1st Line]
 [Office Address 2nd Line]
 [City of Office], [State of Office] [Zip Code of Office]
 Telephone No. [Main Phone Number of Office]
 FAX No. [Fax Number of Office]
 E-mail Address [E-Mail of Office]

SUBJECT: Noncompliance with CAS 410

REFERENCES: *If applicable, include appropriate references.
 Relevant Dates: (See Page **Error! Bookmark not defined.**)*

CONTRACTOR: [Contractor Offsite Location Name]
 [Contractor Name 1st Line]
 [Contractor Name 2nd Line]
 [Contractor Address 1st Line]
 [Contractor Address 2nd Line]
 [City of Contractor], [State of Contractor] [Zip Code of Contractor]

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SUBJECT OF AUDIT

As requested by your office on *[insert date]*, we examined *[Contractor Name 1st Line]*'s *[Contractor Offsite Location Name]* (*[Contractor Location Acronym]*) location to determine whether this offsite location meets the definition of a segment as contained in 48 CFR 9904.410-30(a)(7). The contractor is responsible for compliance with the requirements of CAS 410. Our responsibility is to express an opinion on compliance with those requirements based on our examination.

EXECUTIVE SUMMARY

[Develop an appropriate summary using the guidelines provided in CAM 10-210.2].

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the contractor has complied with the requirements referred to above. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the cost accounting practices; and
- assessing the actual cost accounting practices and compliance of those practices with the disclosed cost accounting practices and applicable requirements.

We evaluated the contractor's cost accounting practices used to accumulate contract costs using the applicable requirements contained in the CAS Board rules, regulations and standards.

[Summarize the contractor's internal control systems for the audit area being examined using the guidelines provided in CAM 10-210.3.f. Conclude the Scope paragraph with the following statement:] The scope of our examination reflects our assessment of control risk and includes audit tests designed to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on *[short name's]* compliance with the specified requirements.

QUALIFICATIONS

[Separately identify and describe any special circumstances or conditions adversely affecting the audit or its results.]

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RESULTS OF AUDIT

In our opinion, the contractor is in noncompliance with CAS 410 due to its failure to identify their [*Contractor Offsite Location Name*] offsite location as a segment as defined in 48 CFR 9904.410-30(a)(7). As of the date of this report, the condition causing the noncompliance has not been corrected.

This report is limited to the cited instance of noncompliance. Accordingly, we express no opinion on whether other practices are proper, approved, or agreed to for pricing proposals, accumulating costs, or reporting contractor performance data.

STATEMENT OF CONDITIONS AND RECOMMENDATIONS

*[Our examination disclosed that the contractor's failure to identify their [*Contractor Offsite Location Name*] offsite location as a segment has resulted or may result in increased cost paid by the Government. The areas of noncompliance and/or failure to follow disclosed practices are stated below.]*

Condition.

Provide an introductory paragraph that includes: (i) a brief summary of the nature of the noncompliance; (ii) a specific reference to the regulatory support for the noncompliance (e.g., 48 C.F.R. 9904.410-30(a)(7)); and (iii) an explanation of the significance of the problem.

Then describe the segment attributes that cause this offsite location to meet the CAS definition of a segment in sufficient detail to provide the FAO cognizant of the segment to which this offsite location reports with a thorough understanding of the nature and extent of the noncompliance. Include the rough order magnitude (ROM) of the cost impact to demonstrate the potential significance of the noncompliance to the CFAO. Describe the audit procedures used to evaluate the accounting practice and calculate the ROM.

Recommendation.

Provide a specific recommendation for corrective action.

We discussed factual matters concerning our findings with [*name and title of contractor's representative*] in an exit conference held on [*date*]. We did not provide our draft assist audit report to the contractor for comment.

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CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization.

[See CAM 10-210.7.]

2. Systems

[See CAM 10-210.7.]

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DCAA PERSONNEL

	<u>Telephone No.</u>
Primary contact(s) regarding this audit:	
[Auditor's Name], Auditor	[Auditor's Phone Number]
[Supervisor's Name], Supervisory Auditor	[Supervisor's Phone Number]
Other contact(s) regarding this audit report:	
[FAO Manager's Name], Branch Manager	[FAO Manager's Phone Number]
	<u>E-mail Address</u>
[Office Name]	[E-Mail of Office]

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[FAO Manager's Name]
[Title]
DCAA [Office Name]

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